RULES OF THE
DEPARTMENT OF REVENUE

CHAPTER 810-3-13

Net Income of Individuals - Computations

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810-3-13-.01 Taxable Year.

(1) Taxable income shall be computed and a return shall be made for a period known as the "taxable year." The taxable year may be a calendar year, a fiscal year, an elected 52-53 week year, or an accounting period of less than twelve months resulting from a change in accounting periods.

(2) A taxpayer elects a taxable year when the first return is filed. This election should be consistently followed in filing subsequent returns. Any change in accounting period must have the approval of the Department of Revenue as described in Rule 810-3-30-.01.

(a) A calendar year is the twelve consecutive month period beginning January 1 and ending December 31.

(b) A fiscal year is the twelve consecutive month period ending on the last day of any month other than December.

(c) There is no provision in Alabama income tax law for the 52-53 week year; however, the Department does permit the election of the 52-53 week year. When this election is made, the Department will follow the methods prescribed by the Internal Revenue Service pursuant to 26 U.S.C. §441(f).

(3) An accounting period of less than twelve months is one that results from changing the accounting period from the calendar year to the fiscal year, from fiscal year to calendar year, from one fiscal year to another, when the taxpayer is not in existence for the entire taxable year, when the taxpayer goes out of business, or when there is a change in entity. These changes are further described in §40-18-30, Code of Alabama 1975.

(4) Effect of election under §40-18-8(j), Code of Alabama 1975, (and 26 U.S.C. §338), for entities filing separate returns. The making of an election for a deemed liquidation of a target corporation as provided in §40-18-8(j) does not operate to terminate the tax year of the target corporation. If the target corporation must change its taxable year to conform to that of a new consolidated parent company for federal purposes, the rules in paragraph (2) above for change in accounting period apply.

(a) Unlike the federal rules, the target corporation is not required to file a "one-day" return for taxable gains. Such gains are included in the return for the period which otherwise includes the "one-day" federal return period.

1. For example, if the target corporation is filing on a calendar year basis, and will continue to file on a calendar year basis following the 26 U.S.C. § 338 deemed liquidation, there is only one taxable year for Alabama purposes, even though the corporation may have 3 taxable periods for federal purposes:

(i) the short period return from the beginning of the calendar year to the last day before the deemed liquidation,

(ii) the "one-day" return for the day of the deemed liquidation, and

(iii) the short period return from the first day after the deemed liquidation to the end of the calendar year.

(5) If the taxpayer's accounting period is other than the taxable year as described in this rule, or if the taxpayer has no accounting period or does not keep records, the net income shall be computed on the basis of the calendar year.

(6) For tax years beginning after December 31, 1989, a taxpayer must use the same accounting period for Alabama purposes as that used for federal income tax purposes, except as otherwise provided in paragraph (4) above.

(7) For tax years beginning after December 31, 1998, a taxpayer making an election to file an Alabama consolidated return, as provided in §40-18-39, must use the same taxable year as employed for federal income tax purposes.

Authors:	Cindy D. Norwood, Jeffrey Taylor, Carmen Mills, Anne Glenn
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810-3-13-.02 Maintenance of Accounting Records.

(1) Each taxpayer must maintain such accounting records as will clearly reflect his income for each accounting period, and must file his returns based on these records.

(2) If the taxpayer does not maintain such accounting records, or if such records do not clearly reflect the income or deductions of the taxpayer for any given taxable year, the Department may prescribe the method and basis for computation of such income. A taxpayer who does not keep adequate accounting records will be required to report his income on the calendar year basis and use the cash receipts and disbursements method of accounting.

(3) For record keeping requirements, see §40-2A-7(a)(1), Code of Alabama 1975.

Author: Rebecca S. Whisenant, Cynthia D. Norwood, Carmen Mills, Anne Glenn
Authority: Sections 40-2A-7(a)(5), 40-18-13 and 40-1-5, Code of Alabama 1975
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810-3-13-.03 Method of Accounting.

(1) For tax years beginning after December 31, 1998, a taxpayer making an election to file an Alabama consolidated return, as provided in §40-18-39, Code of Alabama 1975, must use the same method of accounting as employed for federal income tax purposes.

(2) For tax years beginning after December 31, 1989, a taxpayer must use the same accounting method for Alabama purposes as that used for federal income tax purposes.

Author: Cindy D. Norwood, Jeffrey Taylor, Carmen Mills, Anne Glenn
Authority: Sections 40-2A-7(a)(5) and 40-18-13, Code of Alabama 1975
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810-3-13-.04 Change in Method of Accounting.

(1) For tax years beginning before January 1, 1990, a taxpayer desiring to change his method of accounting should request permission from the Department of Revenue to make the change. Applications for such change should set forth clearly the nature of the business, the method of accounting used in keeping the books, and the reasons for changing the method of reporting.

(2) For tax years beginning after December 31, 1989, the accounting method used for Alabama purposes will automatically change whenever a different method is permitted or required for federal income tax purposes.

(3) Alabama law has no counterpart to 26 U.S.C. § 481; therefore, any increase or decrease in income resulting from a change in accounting method must be taken into account in full in the year of change. There is no provision in Alabama law to defer the effect of a change in accounting method over a number of years. In changing from a cash method of accounting to an accrual method, income accrued but not yet collected as of the close of the year of change shall be added to income actually received in cash during the year, and expenses accrued but not yet paid as of the close of the year shall be added to expenses actually paid during the year. In making a change from accrual to cash method of accounting, items previously reported as income and expenses should be excluded from the cash basis return.

Author: Cindy D. Norwood, Jeffrey Taylor, Carmen Mills, Anne Glenn
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